Budget Bulletin
Senate Budget Committee
Majority Staff
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INFORMED BUDGETEER

PRESIDENT CLINTON'S FY 1998 BUDGET

Aggregate Budget Totals
($ in Billions)

	1997	1998	1999	2000	2001	2002	Total
Discretionary:							
Defense	268	260	262	268	269	274	1,332
Non defense	282	287	295	296	292	293	1,465
Subtotal	550	548	558	564	561	567	2,797
Mandatory:							
Medicare	192	204	217	227	243	261	1,152
Medicaid	99	106	112	118	125	133	594
Social Security	364	381	399	418	438	460	2,095
Other Mandatory	179	199	224	240	232	220	1,115
Subtotal	834	890	951	1,002	1,039	1,074	4,956
Net Interest	247	250	252	248	245	239	1,234
Total Spending	1,631	1,688	1,761	1,814	1,845	1,880	8,987
Revenues	1,505	1,567	1,643	1,727	1,808	1,897	8,642
Deficit/surplus	-126	-121	-117	-87	-36	17	

- The President's 1998 budget proposes to spend $1.7 trillion and collect $1.6 trillion in taxes in 1998. Deficit will increase to $121 billion in 1998, before declining in 1999 reaching a surplus of $17 billion in 2002. The President's budget assumes cumulative deficit reduction over 5 years totaling $252.1 billion.

- Big differences still exist in starting points however, the President's budget begins with the advantage of having a much lower current policy deficit forecast than the CBO estimates. Without any changes in policy, the President's estimate of the deficit in 2002 will be $100.8 billion. The comparable CBO estimate is $166.6 billion, $65.8 billion higher than the President's starting point. Differences appear to be <u>almost</u> entirely because of differences in economic forecasts.

Comparison of Baseline Deficits
($in Billions)

	1997	1998	1999	2000	2001	2002	Total
OMB	127.7	119.5	140.1	127.6	108.5	100.8	
CBO	124.1	134.9	157.9	175.3	152.5	166.6	
Difference	+3.6	-15.4	-17.8	-47.7	-44.0	-65.8	-187.1

- While CBO and OMB economic forecasts may seem close together, the differences have significant deficit impact. Using very rough rules of thumb, the *Bulletin* estimates that use of CBO economics would add at least $68 billion to the Administration's 2002 deficit projection.

Deficit Impact Estimates: CBO Versus OMB Economics
($ in Billions)

	1997	1998	1999	2000	2001	2002	Total
Income Shares	4.7	17.4	26.1	35.5	31.5	30.0	145.3
GDP	4.2	5.3	4.9	7.3	10.1	13.3	45.1
CPI - GDP Deflator	-----	2.3	4.8	8.3	11.6	15.8	42.9
Interest Rates	0.6	2.4	4.5	6.1	7.5	8.9	30.0
TOTAL	9.5	27.4	40.3	57.2	60.7	68.0	263.3

- Because of the lower starting points, the President can claim to reach balance in 2002 with <u>net</u> spending reductions of $258 billion and a <u>net</u> tax cut of $22 billion over the next five years. The President's net spending cuts break down as follows:

  Defense -- reduced $79.5 billion over the next five years from simply extending the 1997 funding level with inflation. However, the level of funding for defense is very comparable to last year's budget resolution assumptions.

  Non defense appropriated spending -- reduced $58 billion from simply extending the 1997 funding level with inflation, (this is, however, about $72 billion higher than if appropriated accounts were frozen at their 1997 appropriated level for 5 years).

  Net mandatory and entitlement spending savings of $121 billion over next 5 years, broken down primarily in three areas: Medicare--$100.2 billion; Medicaid--$9.3 billion; Spectrum-- $36.1 billion.

  President's Budget includes nearly $60 billion in new mandatory spending over the next five years. Including:

  -Medicare, nearly $12 billion in new benefits (e.g. Alzheimer).
  -Medicaid, nearly $5 billion in children's health.
  -Welfare add-backs, $21.3 billion (food stamps, SSI, jobs, Medicaid).
  -Health Insurance for unemployed adults, nearly $10 billion.
  -Health Insurance for children, nearly $4.0 billion.
  -School construction, $5 billion.
  -School literacy, $1.2 billion.

- The President's Budget includes $98.5 billion in tax cuts over the next five years. Tax increases total $76.0 billion from "eliminating unwarranted benefits" and extending other expiring tax provisions. Net tax cut of $22.4 billion.

- Ninety percent of the President's tax cuts are in three areas: tax credit for dependent children -- $46 billion; education tax credits/deductions -- $36 billion; expand IRA accounts -- $5.5 billion.

- Nearly 40 different provisions are defined as **"unwarranted tax benefits**", these provisions would raise $34 billion in revenues over 5 years. Almost all of these were proposed by the President last year. Another $42 billion in receipts come from primarily extending expiring tax provisions. The largest of these affects the airline industry -- $32.2 billion.

Summary of President's Budget Changes for 1998
($ in Billions)

	1997	1998	1999	2000	2001	2002	Total
Baseline deficit	127.7	119.5	140.1	127.6	108.5	100.8	
Discretionary:							
Defense	-0.7	-5.3	-14.6	-14.4	-21.9	-23.2	-79.5
Non defense	+(*)	-0.6	-3.3	-8.3	-18.8	-27.0	-58.0
Mandatory:							
Medicare	--	-4.3	-11.4	-22.2	-27.8	-34.6	100.2
Medicaid	--	1.4	0.4	-1.4	-3.9	-5.8	-9.3
Other mandatory	0.3	3.0	5.4	4.2	-0.9	-23.4	-11.4
Net tax cut	-1.6	7.0	1.4	3.7	5.5	4.9	22.4
Total changes	-2.0	1.2	-22.0	-38.4	-67.8	-109.2	-236.3
Debt Service	-0.1	-0.1	-0.7	-2.1	-4.5	-8.5	-15.9
Deficit reduction	-2.1	1.1	-22.7	-40.5	-72.3	-117.7	-252.1
Deficit/surplus	125.6	120.6	117.4	87.1	36.1	-17.0	

NOTE: Details may not add to totals due to rounding; (*) means less than $0.5 billion.

THE PRESIDENT'S TRIGGER

- The President's budget will not reach balance by 2002 according to the Congressional Budget Office (CBO), falling approximately $50 billion short in that year.

- In order to reach balance by CBO's estimates, the President proposes a "mechanism" to balance the budget. Under the President's mechanism or trigger, beginning in 2001, he would sunset his tax cuts and make across-the-board spending reductions in all programs except Social Security. In addition to Social Security, other programs such as interest payments on the debt, are exempt from the trigger.

- More specifically, the President's trigger would involve the following steps:

  In 2001 and 2002, OMB would reduce appropriations for all discretionary accounts by 2.25 percent.

  In 2002, OMB would reduce the COLA to 0.46 percent for all mandatory programs with COLAs except Social Security, a reduction of 2.25 percent.

  In 2002, OMB would reduce all other mandatory programs except Social Security by 2.25 percent.

  The child care credit, the expansion for new IRAs, the tax incentives for education, and the tax incentives for distressed areas would all sunset at the end of calendar year 2000. This produces savings of \$7 billion in FY 2001 and \$21.9 billion in FY 2002. The remainder of the President's tax cuts, amounting to \$900 million would continue.

  If the trigger is implemented and the resulting actual deficit is lower than was needed to reach balance in 2002, the trigger would provide expedited legislative procedures to enact legislation to restore the tax cuts. The spending reductions would be restored automatically. The tax cuts would be restored first and spending reductions would be restored next.

- And you thought Gramm-Rudman-Hollings was complicated.

BIENNIAL APPROPRIATIONS AND BUDGET ACT

- On February 4, Senator Domenici, along with 24 co-sponsors, introduced "The Biennial Appropriations and Budget Act" (S.261). This legislation will convert the appropriations, authorization and budget process to a two-year cycle, enhance Congressional oversight of federal programs and streamline the budget process

First Year: Budget and Appropriations

- Requires the President to submit a two-year budget at the beginning of the first session of a Congress. The President's budget would cover each year in the biennium and planning levels for the four out-years. Converts the "Mid-session Review" into a "Mid-biennium review". The President would submit his "mid-biennium review" at the beginning of the second year.

- Requires Congress to adopt a two-year budget resolution and a reconciliation bill (if necessary). Instead of enforcing the first fiscal year and the sum of the five years set out in the budget resolution, the bill provides that the budget resolution establish binding levels for each year in the biennium and the sum of the six-year period. The bill modifies the time frames in the Senate ten-year pay-as-you-go point of order to provide that legislation could not increase the deficit for the biennium, the sum of the first six years, and the sum of the last 4 years.

- Requires Congress to enact a two-year appropriations bill during the first session of Congress. Provides two fail-safe measures if there were an attempt to continue to appropriate funding on an annual basis. First, the bill provides a new majority point of order against appropriations bills that fail to cover two years. Second, if an appropriations bill were enacted that failed to appropriate money for the second year of the biennium, funding would be automatically appropriated at the first year's level. These fail-safe measures would not apply to supplemental appropriations bills to fund unanticipated needs such as emergencies.

- Makes budgeting and appropriating the priority for the first session of a Congress. The bill provides a majority point of order against consideration of authorization and revenue legislation until the completion of the biennial budget resolution, reconciliation legislation (if necessary) and the thirteen biennial appropriations bills. An exception is made for certain "must-do" measures.

Second Year: Authorization Legislation and Oversight

- Devotes the second session of a Congress to consideration of biennial authorization bills and oversight of federal programs. The bill provides a majority point of order against authorization and revenue legislation that cover less than two years except those measures limited to temporary programs or activities lasting less than two years.

- Requires the General Accounting Office (GAO) to give priority to requests for audits and evaluations of programs and activities during the second year of the biennium.

- Modifies the Government Performance and Results Act of 1993 (GPRA) to incorporate the government performance planning and reporting process into the two-year budget cycle to enhance oversight of federal programs.

- The Domenici bill modifies GPRA to place it on a two-year cycle along with the budget process. The bill also requires the authorizing committees to review the strategic plans, performance plans, and performance reports of federal agencies and to submit their views, if any, on these GPRA plans and reports as part of their views and estimates submissions to the budget committees.
- The Domenici bill requires agencies to submit a preliminary performance plan and proposed authorization legislation to the relevant authorizing committees by March 31 of even-numbered years. In developing proposed authorization legislation, the bill directs agencies to include in their proposed legislation, changes that will enhance agencies' ability to meet their strategic and performance goals.

CALENDAR: "GETTING OVER THE BRIDGE"

February 10: **SBC Hearing: President's FY 1998 Budget:** Secretary of the Treasury, Robert Rubin. Dirksen 608; 2:00 p.m.

February 12: **SBC Hearing: Public Investments in the Budget:** Former Secretary of Labor Robert Reich and Professor Douglas Holtz- Eakin, Syracuse University, Maxwell School of Citizenship and Public Affairs. Dirksen 608; 10:00 am.

February 13: **SBC Hearing: Biennial Appropriations and Budgets:** Dirksen 608; 10:00 am.

✯BUDGET COMMITTEE WEB SITE✯

The Senate Budget Committee has a new web site. In addition to the *Bulletin* being on the world wide web, you can now find analysis, hearing schedules, the Congressional Budget Process Committee Print, staff listing, press releases, major documents, legislation and more. You can find all of this at http://www.senate.gov/~budget/republican/.

Editor's Note: The Budget Committee staff would like to extend their best wishes to Keith Hennessey. Keith, who has been with the committee since 1995, will be leaving the committee this week to join Senator Lott's staff in the Majority Office. The *Bulletin* will miss his insights and is grateful for all his contributions.